

November 12, 1999

To: Senator Sid Snyder, Chair
Senator Dan McDonald
Representative Hans Dunshee
Representative Brian Thomas
Fred Kiga, Director, Department of Revenue
Dick Thompson, Director, OFM

From: Chang Mook Sohn, Executive Director
Office of the Forecast Council

Subject: NOVEMBER 10, 1999 REVENUE COLLECTION REPORT

Economic activity in the third quarter was stronger than expected resulting in higher than anticipated revenue. Although General Fund-State receipts in the October 11 – November 10, 1999 period are only \$1.2 million above the September forecast, the reported variance understates the strength of the economy and its ability to generate revenue. As was the case last month, this month's receipts include the impact of unexpectedly large refunds. Excluding these refunds, tax collections are \$7.2 million higher than the September forecast. Cumulatively, since September the story is similar. The issuance of unusually large refunds understates the strength of collections for the two months since the September forecast. Excluding, these refunds, General Fund state receipts are \$24.6 million above the September forecast. Strong consumer spending, a sharp rebound in real estate activity and higher production at Boeing have all contributed to stronger than expected revenue in the third quarter. Economic fundamentals indicate that the economy is healthy. The national economic outlook continues to improve and income at the state level is stronger than expected in September. Although to date there are few sings of slowing, we still expect the economy and revenue growth to weaken by early next year primarily due to major job losses at Boeing.

Revenue Act collections this month primarily reflect September activity of monthly taxpayers and third quarter activity of quarterly filers. Receipts were up a strong 8.9 percent (adjusting for special factors - large refunds), slightly higher than last month's 8.9 percent. This pushes the growth for the quarter to 7.1 percent, the strongest quarterly increase in a year.

Nationally, the pace of economic activity accelerated in the third quarter with GDP increasing at a 4.3 percent annual rate. This is higher than both the pace in the second quarter and what we were assuming in the September forecast. At the state level, strong

growth in the Puget Sound area pushed third quarter statewide employment growth to 2.8 percent up from 1.4 percent in the second quarter, nearly one and a half times as fast as the U.S. average. Income growth in the third quarter (largely due to rapid growth of income from stock options) was even more impressive increasing at a 12.6 percent annual rate. The stronger than expected third quarter income growth along with a record low savings rate and strong growth of consumer credit contributed to the higher than expected revenue act increase this month. Despite the strong third quarter, we still expect the Washington economy to decelerate in the next few quarters due in part to slower growth nationally and declining aerospace employment. Revenue growth is expected to slow with the economy.

Preliminary data on tax payments in the October 11 - November 10 collection period was mixed. The growth of tax payments reported by the construction, manufacturing and retailing sectors was above average. Growth of tax payments from the service and finance, insurance and real estate sectors was weak. Within retailing, the durable goods sectors continue to outperform, with the furniture and household equipment sector especially strong.

Other General Fund taxes collected by the Department of Revenue were \$2.4 million above the estimate for the month. Cumulatively, these taxes are now \$9.4 million above the September forecast. For the month, stronger than expected real estate and cigarette tax receipts more than offset weaker than expected property and estate tax payments. Cumulatively, property tax receipts are a little weaker than expected, while most other major taxes are doing better than expected. The property tax shortfall is believed to be due to timing and the shortfall likely will be recouped later in the fiscal year.

Growth of real estate activity increased sharply in September. Taxable activity based on closings in the month of September (reflecting payments to the state in October) were 16 percent higher than a year ago, well above last month's 6.8 percent increase and the 5.7 percent average growth for the first nine months of 1999. Transactions were also up but only by 1.5 percent. The year-to-date transactions are up only 0.8 percent.

Other agencies' General Fund collections were \$4.1 million below the forecast in October mostly due to weaker lottery transfers. Lottery transfers for the month were \$3.8 million less than expected and are cumulatively \$8.0 million below the September forecast. Most of the weakness is due to soft lotto sales, which is primarily the result of too few large lotto jackpots.

The attached table 1 provides a comparison of collections with estimates for the current mid-month period, October 11- November 10, and cumulatively since our last forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's mid-month report.

TABLE 1
Revenue Collection Report
November 10, 1999 Collection Report - Based on the September 1999 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
October 11 - November 10, 1999				
Department of Revenue-Total	\$876,785	\$882,143	\$5,358	0.6%
Revenue Act** (1)	778,462	781,414	2,952	0.4%
Non-Revenue Act(2)	98,323	100,729	2,406	2.4%
Liquor Sales/Liter	6,577	6,578	1	0.0%
Cigarette	5,180	5,474	294	5.7%
Property (State School Levy)	35,459	32,705	(2,754)	-7.8%
Estate	8,664	7,953	(711)	-8.2%
Real Estate Excise	30,990	35,020	4,030	13.0%
Timber (state share)	0	0	0	NA
Other	11,452	12,999	1,547	13.5%
Department of Licensing (2)	1,084	803	(281)	-25.9%
Lottery (2)	10,777	6,926	(3,851)	-35.7%
Total General Fund-State***	\$888,646	\$889,872	\$1,226	0.1%
Cumulative Variance Since the September Forecast (September 11 - November 10, 1999)3				
Department of Revenue-Total	\$1,540,015	1,542,018	2,003	0.1%
Revenue Act** (3)	1,378,954	1,371,592	(7,362)	-0.5%
Non-Revenue Act(4)	161,061	170,426	9,365	5.8%
Liquor Sales/Liter	13,441	13,281	(160)	-1.2%
Cigarette	9,920	11,853	1,933	19.5%
Property (State School Levy)	42,841	40,070	(2,772)	-6.5%
Estate	14,482	15,796	1,314	9.1%
Real Estate Excise	65,035	71,962	6,927	10.7%
Timber (state share)	0	0	0	NA
Other	15,342	17,465	2,123	13.8%
Department of Licensing (4)	2,479	2,058	(421)	-17.0%
Lottery (4)	21,554	13,545	(8,008)	-37.2%
Total General Fund-State***	\$1,564,048	\$1,557,621	(\$6,427)	-0.4%

1 Collections October 11 - November 10, 1999. Collections primarily reflect September 1999 activity of monthly taxpayers and third quarter activity of quarterly filers.

2 October 1-31, 1999 collections.

3 Cumulative collections, estimates and variance since the September forecast; (September 11 - November 10, 1999) and revisions to history.

4 Cumulative collections, estimates and variance since the September forecast; (September and October 1999 and revisions to history.)

* Based on the September 1999 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission, about 97% of total General Fund-State.

TABLE 2
October 10, 1999 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
September 11- October 10, 1999				
Department of Revenue-Total	\$659,784	\$659,874	\$90	0.0%
Revenue Act (1)	590,178	590,178	(0)	-0.0%
Non-Revenue Act(2)	69,696	69,696	0	0.0%
Liquor Sales/Liter	6,703	6,703	(0)	-0.0%
Cigarette	6,380	6,380	(0)	-0.0%
Property (State School Levy)	7,365	7,365	(0)	-0.0%
Estate	7,843	7,843	(0)	-0.0%
Real Estate Excise	36,941	36,941	0	0.0%
Timber (state share)	0	0	0	NA
Other	4,465	4,465	0	0.0%
Department of Licensing (2)	1,255	1,255	(0)	-0.0%
Lottery (2)	6,619	6,619	0	0.0%
Total General Fund-State***	\$667,748	\$667,748	\$0	0.0%

Cumulative Variance: September 11 - October 10, 1999 & Revisions to History

Department of Revenue-Total	659,874	\$659,874	\$0	0.0%
Revenue Act (3)	590,178	590,178	(0)	-0.0%
Non-Revenue Act(4)	69,696	69,696	0	0.0%
Liquor Sales/Liter	6,703	6,703	(0)	-0.0%
Cigarette	6,380	6,380	(0)	-0.0%
Property (State School Levy)	7,365	7,365	(0)	-0.0%
Estate	7,843	7,843	(0)	-0.0%
Real Estate Excise	36,941	36,941	0	0.0%
Timber (state share)	0	0	0	NA
Other	4,465	4,465	0	0.0%
Department of Licensing (4)	1,255	1,255	(0)	-0.0%
Lottery (4)	6,619	6,619	0	0.0%
Total General Fund-State***	667,748	\$667,748	\$0	0.0%

P-Preliminary. Reported in the October 10, 1999 collection report.

R Revised data.

1 Collections September 11 - October 10, 1999. Collections primarily reflect August 1999 business activity of monthly taxpayers.

2 September 1-30, 1999 collections.

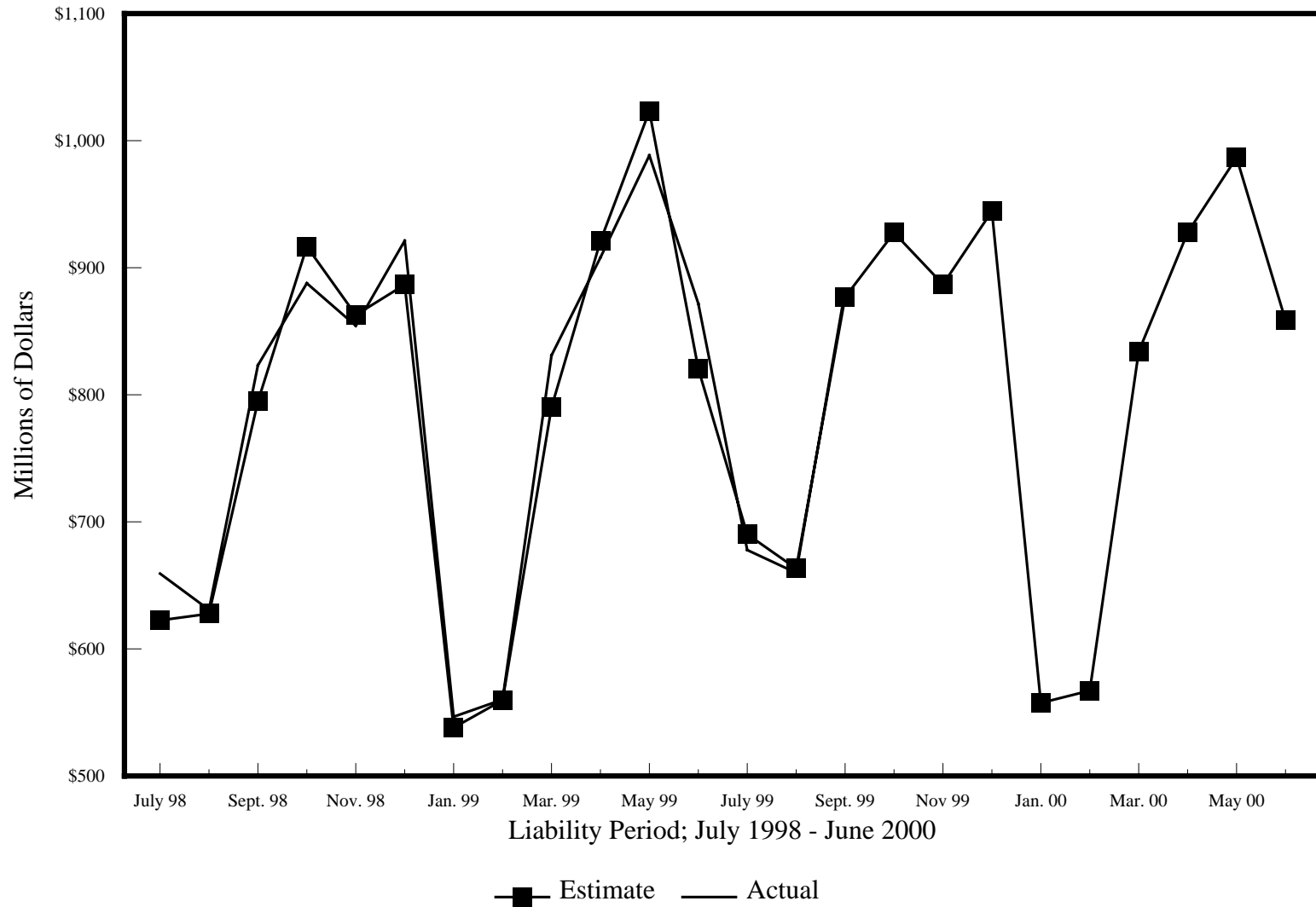
3 Cumulative variance for since the September forecast: September 11 - October 10, 1999, & revisions to history.

4 Cumulative variance: since the September forecast (September 1999) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

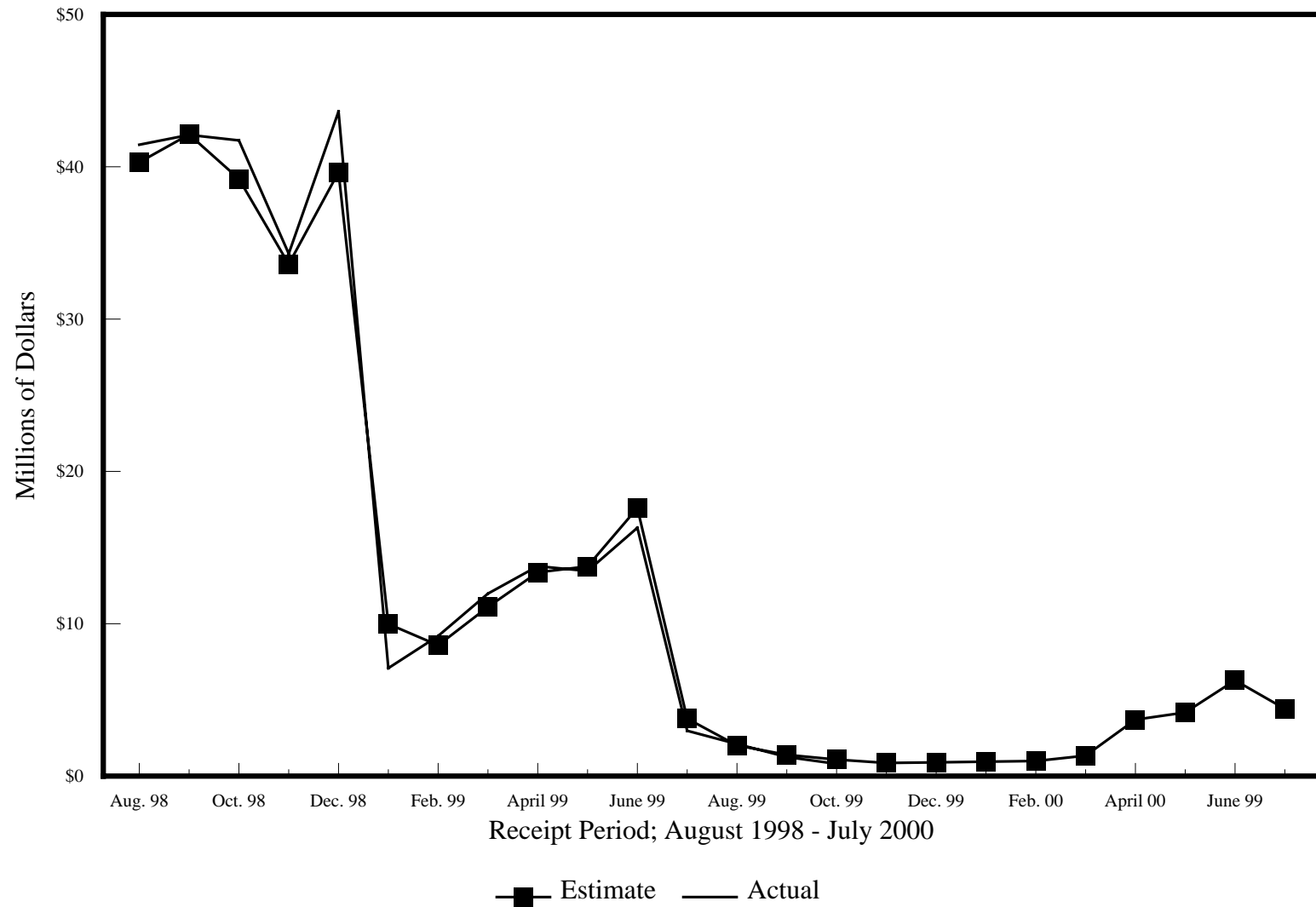
Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to June 2000



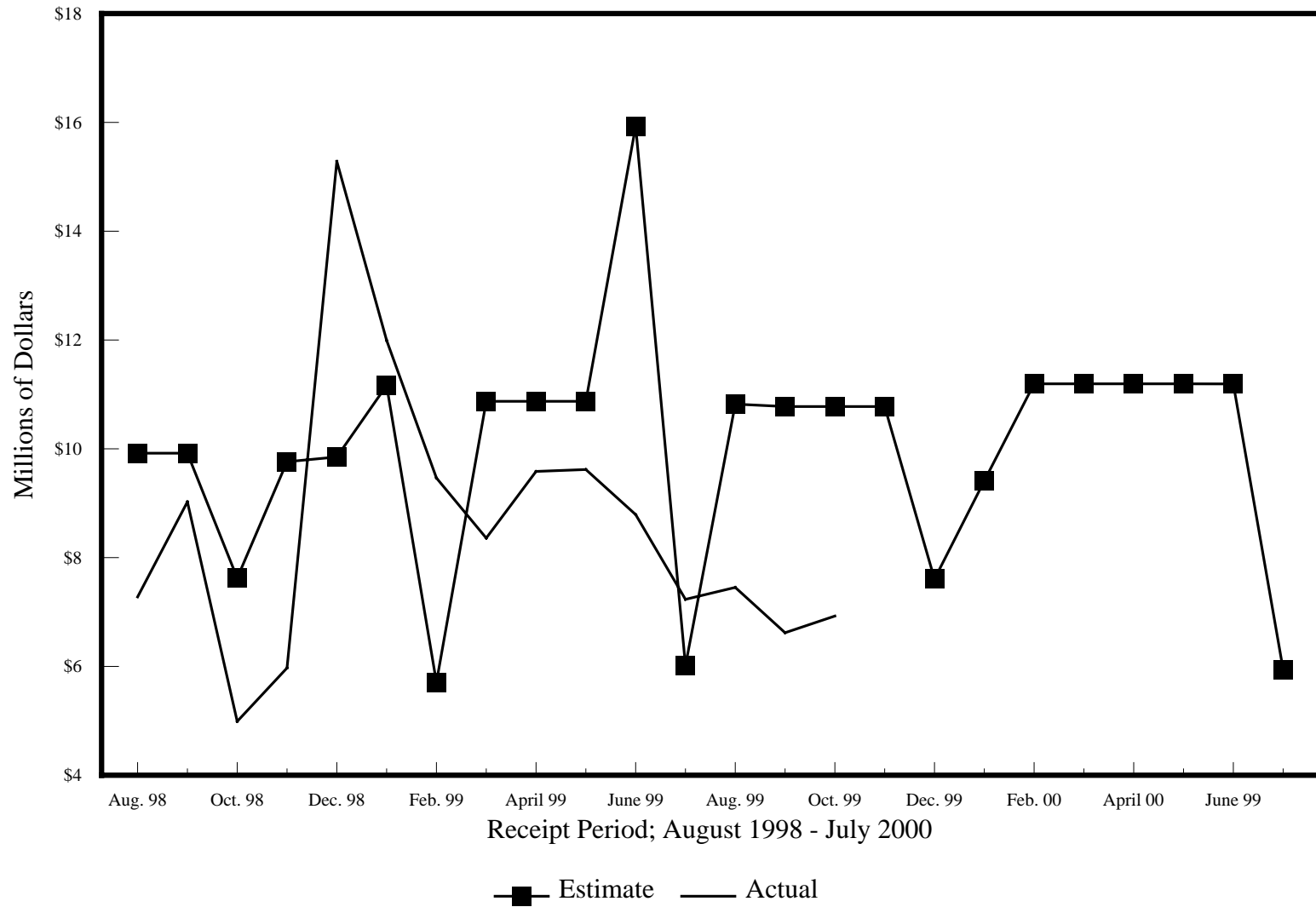
Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to July 2000



Lottery General Fund-State Transfers, Actual vs. Estimate

August 98 to July 2000



Revenue Act Net Collections

Year-over-Year Percent Change

